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Message Text

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ACTION EUR-08

INFO OCT-01 NEA-07 ISO-00 SS-14 EB-03 INR-05 SSO-00 INRE-00

SP-02 H-01 L-01 CIAE-00 EURE-00 /042 W
---------- 074839
O 101808Z EAR 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 9718
INFO AMEMBASSY JIDDA IMMEDIATE
AMEMBASSY TEHRAN IMMEDIATE
AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 03781
LIMIDS
E O. 11652: XGDS-1
TAGS: ENRG, PFOR, TR, UK, FR
SUBJECT: FONSEC CALLAGHAN EXPRESSES CONCERN OVER
POSSIBLE BREAKUP OF IRANIAN OIL CONSORTIUM

REFS: (A) STATE 11491, (B) STATE 7746, (C) LONDON 2744.
(D) LONDON 1845, (E) TEHRAN 2443, (F) TEHRAN 2172.
(G) TEHRAN 12252 (1975)

1. DURING AMBASSADOR'S INITIAL CALL (ACCOMPANIED BY
DCM) ON FONSEC CALLAGHAN MARCH 9, HE EXPRESSED HIS
CONCERN OVER DIFFICULTIES BETWEEN IRAN AND ESPECIALLY
US MEMBERS OF OIL CONSORTIUM. HE ASKED THAT HIS VIEWS
BE PASSED ON TO SECRETARY KISSINGER WHO MIGHT WISH TO
CONTACT A FEW COMPANIES IN THIS REGARD.

2. CALLAGHAN BELIEVES IRAN IS UNDER ECONOMIC/POLITICAL
PRESSURE AND THAT US COMPANIES ARE RUNNING RISK OF BREAK-
ING UP CONSORTIUM FOR SAKE OF A FEW CENTS PROFIT. HE
NOTED SAUDIS HAVE MORE MONEY THAN THEY CAN SPEND AND
ASKED RHETORICALLY WHY IRANIAN LIFTINGS SHOULD NOT BE
INCREASED AND SAUDIS REDUCED. CALLAGHAN DID NOT
ELABORATE FURTHER ON WHETHER HE WAS CONCERNED ONLY WITH
QUESTION OF INCREASED CONSORTIUM LIFTINGS OR ALSO WITH
PROGRESS ON NIOIC-CONSORTIUM NEGOTIATIONS ON ALTERNA-
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TIVES TO 1973 AGREEMENT. CALLAGHAN ADVISED THAT HE DID NOT, OF COURSE, TELL SHAH THAT HE INTENDED TO MAKE THIS APPROACH TO US. HOWEVER, TIME WAS OF THE ESSENCE SINCE NEGOTIATIONS WERE DUE TO START WITHIN HOURS.

3. IN SEPARATE BRIEFING TODAY FCO OFFICIALS WEIR (ASST. UNDERSEC, MIDDLE EAST) AND EGERTON (HEAD, ENERGY DEPT), THEY PLEADED IGNORANCE OF CALLAGHAN'S APPROACH TO AMBASSADOR. WEIR, WHO ACCOMPANIED CALLAGHAN ON HIS TRIP TO IRAN, SUGGESTED THAT FONSEC WAS. IN FACT, REFLECTING SHAH'S VIEW MORE SO THAN HIS OWN. ACCORDING TO WEIR, SHAH AND CALLAGHAN FIRST HAD A POLITICAL DISCUSSION (SEE TEHRAN 2443, PARA 2) FOLLOWED BY A REVIEW OF THE WORLD ECONOMY. AND THAT OIL DISCUSSION AROSE IN THIS CONTEXT. CALLAGHAN HAD NOTED THAT EVEN WHEN ECONOMIC RECOVERY OCCURRED HE DOUBTED THAT DEMAND FOR OIL WOULD RETURN TO PRE-1973 LEVELS BECAUSE OF CONSERVATION, ALTERNATIVE SOURCES AND NEW DISCOVERIES, SUCH AS NORTH SEA. TURNING TO RECENT PROBLEMS OF THE CONSORTIUM IN THIS REGARD, CALLAGHAN PREFACED HIS REMARKS BY SAYING HMG COULD NOT DICTATE HOW BRITISH COMPANIES ACTED BUT HAD NOTED GOVERNMENT'S SYMPATHETIC ATTITUDE TOWARD IRAN AND HOPED THEY WOULD DO WHAT THEY COULD. SUBSEQUENTLY, BP AND SHELL HAD IMPROVED THEIR LIFTINGS "AS HIGH AS THEY COULD."

4. ACCORDING TO WEIR, SHAH ONCE AGAIN REFERRED TO IRAN'S POLITICAL ROLE IN INDIAN OCEAN. ETC., AND NEED FOR GREATER REVENUES IN ORDER TO PLAY THIS ROLE. SHAH SAID HE HAD NO COMPLAINTS ABOUT RECENT LIFTINGS OF SHELL AND BP, BUT THAT US COMPANY LIFTINGS WERE DISAPPOINTING. THEY SEEMED MORE INTERESTED IN SAUDI ARABIA. (AT THIS POINT SHAH APPARENTLY DIGRESSED TO MENTION TWO ITEMS OF MORE THAN MARGINAL INTEREST. FIRST, HE SAID HE WAS EXPLORING POSSIBILITY OF OIL FOR GOODS SWAP DEALS WITH US INDEPENDENTS. SHAH ADDED THAT PROPOSED BARTER ARRANGEMENTS HAD APPROVAL OF DEPARTMENTS OF STATE AND DEFENSE.) (FCO WOULD BE INTERESTED IN ANY INFORMATION WE CAN PROVIDE ON THIS SUBJECT.) (SECOND. TURNING MOMENTARILY TO US COMPANIES' INVOLVEMENT IN TALKS WITH NIOC ON REVISED OR NEW AGREE-
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MENT, SHAH SAID IF THEY HAD TAX PROBLEMS WHY CANNOT IRAN HAVE SOME SORT OF DEAL AS WAS ENTERED INTO WITH VENEZUELANS.) RETURNING TO HIS MAIN THEME, SHAH SAID IT WAS UP TO US COMPANIES TO RECOGNIZE POLITICAL IMPLICATIONS. US COMPANIES, HE SAID, WERE TAKING A TOO NARROW, CMMMERCIALLY SHORT TERM VIEW; THEY WERE NOT SUFFICIENTLY AWARE OF THE POLITICAL DIMENSION

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INVOLVED. SHAH COMMENTED THAT IF IRAN CANNOT GET
ENOUGH MONEY, IT WOULD BE FORCED TO RETIRE INTO ITS
OWN SHELL AND NO LONGER BE ABLE TO PLAY ITS PART AS
WEST'S STAUNCH ALLY. WHEN QUESTIONED WHETHER USG WAS

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AWARE OF HIS VIEWS, SHAH STATED VAGUELY THAT AMERICANS
(WITHOUT SAYING ADMINISTRATION OR COMPENIES) WERE
INFORMED. THIS MAIN THEME ALSO STRUCK BY CALLAGHAN
IN MARCH 9 MEETING WITH AMBASSADOR.

5. IN COMMENTING ON ABOVE, EGERTON SAID BRITISH
COMPANIES HAD INFORMED FCO THAT ARAMCO SHAREHOLDERS HAD
TAKEN NO HEAVY CRUDE LIFTINGS WHATSOEVER FROM IRAN IN
JANUARY. HE NOTED THAT WHILE FLUCTUATIONS IN LIFTINGS
HAPPENED FROM TIME TO TIME, THIS COULD BE CONSIDERED A
DAMAGING POLITICAL FACT. HE IMPLIED THAT BP ANO SHELL
HAD PURPOSELY INCREASED THEIR LIFTINGS IN ORDER TO
COMPENSATE ON BEHALF OF CONSORTIUM AS A WHOLE. HE
HASTENED TO ADD, HOWEVER, THAT BEYOND TEA AND SYMPATHY.
HMG HAD MADE NO COMMITMENTS TO IMPROVE LIFTINGS OF

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BRITISH OR OTHER COMPANIES. WHILE GOVERNMENT MIGHT DISCUSS SITUATION WITH BP AND SHELL, IT REMAINED A COMMERCIAL DECISION WHICH THEY HAD TO MAKE. HE NOTED IRANIANS STILL HOPED BRITISH COMPANIES COULD DO BETTER ON LIFTINGS BUT DID NOT INTERPRET THIS AS "PRESSURE."

6. BALANCE OF ITEMS COVERED IN CALLAGHAN'S MEETINGS WITH GOI OFFICIALS HAS BEEN COVERED BY TEHRAN 2443 CONFIDENTIAL

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AND FINANCIAL TIMES ARTICLE OF MARCH 8.

7. COMMENT: COMMERCIAL INTERESTS OF US AND EUROPEAN SHAREHOLDERS IN IRANIAN CONSORTIUM HAVE NEVER BEEN EXACTLY PARALLEL. IN RECENT MONTHS THIS DIVERGENCE OF INTEREST HAS GROWN. BRITISH COMPANIES AND CFP HAVE NO CHEAPER SAUDI ALTERNATIVE WHILE SHELL CERTAINLY HAS ECONOMIC INCENTIVE TO LIFT MORE IRANIAN THAN KUWAITI CRUDE NOW THAT RECENT KUWAITI PRICING AND PARTICIPATION ARRANGEMENTS EFFECTIVELY UNDERCUT ADVANTAGES OF SHELL-GULF LONG TERM PURCHASE AGREEMENT. SIMILARLY, NEED FOR US COMPANIES TO RETAIN AN "ECONOMIC INTEREST" IN ANY IRANIAN AGREEMENT IN ORDER TO QUALIFY FOR TAX CREDITS UNDER MORE RESTRICTIVE US LEGISLATION HAS PLACED TREMENDOUS BURDEN ON COMPANY LIKE BP WHICH WANTS DESPERATELY TO BE RELIEVED OF ANY INVESTMENT OBLIGATION. IN SHORT, INTRA-CONSORTIUM RELATIONSHIPS ARE BOUND TO BE STRAINED TO LIMIT IN EXISTING SITUATION.

8. HMG AND US DO HAVE BROADLY SIMILAR POLITICAL INTERESTS VIS-A-VIS IRAN. BUT BRITISH ARE MUCH MORE SUSCEPTIBLE TO DIRECT AND INDIRECT PRESSURE OF A FINANCIAL OR ECONOMIC NATURE. IRANIAN GOVERNMENT LOANS, BURGEONING COMMERCIAL TRADE AND ARMS SALES ARE OF PARAMOUNT IMPORTANCE TO BRITAIN. NO LESS THAN FIVE BRITISH MINISTERS HAVE VISITED IRAN DURING PAST SIX MONTHS AND PRIME MINISTER WILSON IS EXPECTED TO GO NEXT SEPTEMBER. IT IS NOT TOO SURPRISING THEN THAT FONSEC CALLAGHAN IS ANXIOUS TO PRESERVE ALL THREADS OF UK-IRANIAN RELATIONSHIPS. WHILE EXISTINQ NIOC-CONSORTIUM FRAMEWORK IS A DEVIL OF A PROBLEM TO MANAGE, PERHAPS HIS REACTION HAS BEEN BETTER A DEVIL YOU KNOW THAN NONE AT ALL.

9. NONETHELESS, EMBASSY IS RELUCTANT TO RECOMMEND DEPARTMENT GETTING IN THE MIDDLE OF COMPANY DISPUTES ON THESE ACCOUNTS, ESPECIALLY INSOFAR AS REDUCED LIFTINGS BY US FIRMS SEEMINGLY HAVE LED TO PRICE REDUCTION OF 9.5 CENTS A BARREL ON IRANIAN HEAVY.

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